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UNCLAS SECTION 01 OF 03 MEXICO 005168

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SUBJECT: MEXICO CITY,S GOVERNMENT PROPOSES UNEMPLOYMENT
INSURANCE

REF: MEXICO 4150

11. SUMMARY: Mexico City,s Mayor, Marcelo Ebrard, recently proposed the creation of an unemployment insurance program for the residents of the Mexican capital. Eligible residents are limited to those that lost a job in the formal economy with eligibility retroactive to December 2006. As proposed, eligible beneficiaries would receive approximately USD 150.00 per month for six months; financed through the saving the city has obtained from renegotiating its municipal debt. Beneficiaries would also receive job training and job search assistance. According to Ebrard, a leading figure in Mexico,s main opposition party, if approved the proposal would be the first ever unemployment insurance program in Mexico. Critics of the proposal denied that Ebrand was creating an unemployment insurance program but rather a subsidy that would discourage people from working. GOM Secretary of Labor, Javier Lozano, took particular issue with

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the claim that the proposal would be Mexico,s first unemployment insurance program. He also vigorously agreed with those who called the initiative a politically motivated subsidy and accused Ebrand of being more interested in trying to buy votes for future elections than in dealing with genuine unemployment problems. As currently presented the proposal is in fact a subsidy and not real unemployment insurance. However, with some thoughtful modifications, the proposal could be turned into an unemployment insurance system that could partially address the problem of laying off surplus (or unsatisfactory) workers that many employers cite as a major obstacle to job creation in Mexico. END SUMMARY.

UNEMPLOYMENT INSURANCE FOR MEXICO CITY RESIDENTS

12. On September 17, Mexico City,s Mayor, Marcelo Ebrard, gave the first annual address on the activities of his administration (a sort of State of the Union Address for the nation,s capital). Although the Greater Mexico City area has an estimated population of over 20 million people, the actual number of residents within the jurisdiction of the Government of Mexico,s Federal District (GDF) is only about half that figure. Nevertheless, that figure of 9-10 million residents is larger than the population of any of Mexico,s 31 other states. Consequently, when something happens in Mexico City the rest of the country takes notice and in the area of labor related issues, Ebrard,s address contained a proposal that got the rest of Mexico,s attention.

13. Along with the usual listing of potholes fixed, streets

cleaned and traffic regulation amended, GDF Mayor Ebrard proposed the creation of an unemployment insurance program for the residents of Mexico City. Ebrard indicated that his proposal, which needs to be approved by the GDF Legislative Assembly (AL), was in response to the problem of unemployment in Mexico City which is at a rate 6.7 percent while the national average is only 3.9 percent. While both of these figures are subject to interpretation and are probably two or three times higher than the official estimates (REFTEL), the fact remains that unemployment in Mexico City is higher than it is in the rest of the country. According to Ebrard, his proposal, if approved, would be the first unemployment insurance program in the country.

¶4. The proposed unemployment insurance program would provide approximately USD 150.00 for up to six month to Mexico City residents who lost jobs in the formal economy (as opposed to the estimated 45 percent of Mexicans nationwide who work in the informal economy; see REFTEL). The program,s benefits would be available retroactively to December 2006 for eligible city residents. In addition to direct cash payments, eligible beneficiaries would also receive job training (or retraining) and job search assistance. GDF Mayor Ebrard stated that the funds needed to pay for this program would come from the money the city government has saved by renegotiating down the interests on its municipal debt.

THE USUAL DEVIL IN THE DETAILS

¶5. Although a broad spectrum of observers noted the that GDF is facing a serious problem because of the city,s high unemployment rate, even the kindest critics could not help pointing out Marcelo Ebrard,s proposal was much closer to a subsidy than to an insurance program. Insurance programs,

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they pointed out, all have a financial reserve created by payments (or deductions) made from enrollees who, in times of hardship or emergencies, might need to apply for payee benefits. The program Ebrard proposed would be financed through projected interest payment savings in the municipal budget with no requirement that potential beneficiaries ever have made any payments into the unemployment insurance funds.

¶6. Initially, at best the GDF proposal would only be able to make payments to some 30,000 people. Unfortunately, according to the GDF,s own figures, there are at least 240,000 who would be eligible for benefits under the program as proposed by Marcelo Ebrard. Thus far no details have been released on what criteria would be used to determine which 30,000 of the eligible 240,000 would qualify for benefits. Moreover, the estimated saving from the renegotiation of the municipal debt was expected to be around 450 million pesos (approximately USD 41.34 million). No details were provided as to what the GDF would do when these funds were exhausted. Nor were any specifics mentioned about the possible cost (in terms of administration and overhead) of the job training and job search assistance associated with the unemployment &insurance8 proposal.

LABOR SECRETARY, AND OTHERS, HARSHLY CRITICIZE PROPOSAL

¶7. One of the most outspoken, although certainly not the only, critic of the GDF Mayor Marcelo Ebrard,s unemployment &insurance8 proposal was GOM Secretary of Labor, Javier Lozano. Secretary Lozano went to great lengths to publicly call the proposal a subsidy. Lozano underscored that a real insurance program would be a self-sustaining institution based on contributions from employers, employees and the

government. Continuing on, Lozano declared that the proposed &subsidy8 also differed from a genuine insurance system because it lacked transparency, professional administration and no mechanisms for responding to market realities.

¶8. Labor Secretary Lozano also vigorously denied the claim that the GDF proposal was the first of its kind in all of Mexico. According to Lozano, Mexico has had an unemployment assistance program since 1984 administered by the Secretariat of Labor (STPS). The STPS unemployment assistance program, Lozano stated, provides job training and short-term benefit payments of anywhere between 1-3 times the minimum wage (approximately USD 85.00) 255.00 per month).

¶9. Other critics, in addition to calling the GDF proposal a subsidy, also described it as program that would actively discourage work. In their view Ebrard,s proposal would be an incentive to avoid looking for a job because the beneficiaries would have a guaranteed income whether or not they actually worked. Furthermore, these critics argued, Mexico was much better off with the system it currently has in which employers are required to pay a substantial severance packaged called &liquidation8 whenever an employee is let go from their job. (Note: Liquidation consists of three month wages plus a complicated formula based on an employee,s years of service. Employers are legally required to pay liquidation whenever an employee is dismissed regardless of whether the worker has already arranged subsequent employment.)

¶10. Both Secretary Lozano and the other harsher critics of GDF Mayor Ebrard,s unemployment assistance program indicated their belief that the real motive for his proposal was politics rather than a desire to help those who have lost their jobs. Marcelo Ebrard, they pointed out, is a leading figure in Mexico,s main opposition party, the Party of the Democratic Revolution (PRD). Although the date is still far in the future (2012) Ebrard is considered to be a strong contender for his party,s nomination for president of Mexico and the critics expressed their firm opinions that his unemployment assistance proposal was little more than an attempt to buy political loyalty and votes.

COMMENT AND ANALYSIS

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¶11. Given the limited resources available to support it, and the many unanswered questions surround its possible implementation, it is hard to view GDF Mayor Marcelo Ebrard,s proposal as anything other than a subsidy. However, with some thoughtful modifications, the proposal could become something approximating a real unemployment insurance system. The current mechanism in Mexico for dealing with job loss or layoffs is liquidation. However, according to a study by the Mexican Institute for Competitiveness (an NGO that works closely with USAID) liquidating an employee in Mexico is so expensive that employers often take increased profits during times of economic growth to pay off employees they believe might be unnecessary during the next economic turndown. In other words, instead of hiring new employees as happens in many countries during times of economic expansion, Mexican employers look upon times of economic growth as an opportunity to payoff and then cut their staffs.

Moreover, because of the high cost of liquidation, many employers do everything they can to avoid hiring new workers in the first place because of the legally obligated cost of reducing staffs during times of economic downturns are too high. If Mexico had a genuine unemployment insurance system,

in place of the current liquidation system, employers might be more willing to accept the risks of hiring new workers without the fear that there would be no way to reduce staff should market downturns and economic requirements compel them to do so.

The creation of a true unemployment insurance system in Mexico, again in place of the current liquidation system, could be looked at in a similar fashion as the establishment of the Social Security system in the United States back in the 1930,s. The very first workers in the U.S. eligible to receive Social Security benefits were in fact subsidized because none of them had worked long enough to make the contributions needed to qualify for extended benefits. However, the broader social good justified this subsidy. In the case of creating a genuine unemployment insurance system in Mexico, the temporary need to subsidize some worker while others contribute to a reserve fund to pay out fixed term benefits might well be justified if the ultimate end was the establishment of a system that added greater flexibility to the workplace.

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